

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE
ADMINISTRATIVE
COSTS INCURRED BY BLUE CROSS AND
BLUE SHIELD OF NORTH DAKOTA/
NORIDIAN MUTUAL INSURANCE
COMPANY OF FARGO, NORTH
DAKOTA**

**FOR THE PERIOD
OCTOBER 1, 1997 TO SEPTEMBER 30,
1999**



**JUNE GIBBS BROWN
Inspector General**

**DECEMBER 2000
A-07-00-02078**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-00-02078
December 22, 2000

Mr. David Breuer
Manager, Finance
BlueCross BlueShield of North Dakota
Noridian Mutual Insurance Company
4510 13th Avenue S.W.
Fargo, North Dakota 58121

Enclosed for your information are two copies of an audit report (CIN: A-07-00-02078) prepared by Carmichael, Brasher, Tuvell & Company, on behalf of the Department of Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services (OAS). The OAS exercised technical oversight and quality control of the examination.

The report covers the audit of administrative costs claimed by BlueCross BlueShield of North Dakota/Noridian Mutual Insurance Company for Part A and Part B of the Medicare Program for the period October 1, 1997 through September 30, 1999. For the period audited, BlueCross BlueShield/Noridian claimed administrative costs \$5,599,516 to process Part A claims and \$89,627,343 to process Part B claims. Your attention is invited to the findings and recommendations contained in the report. The report does not recommend any financial adjustments, but does contain two procedural recommendations.

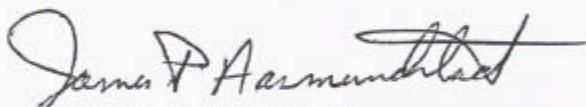
Final determinations as to actions to be taken on all matters reported will be made by the HHS action official named. We request that you respond to the official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act, which the Department chooses to exercise. (See 45 Code of Federal Regulations, Part 5.)

David Breuer - Page 2

To facilitate identification, please refer to the above Common Identification Number (CIN) in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "James P. Aasmundstad", with a long horizontal flourish extending to the right.

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosure

Direct Reply To:

Mr. Alex Trujillo
Regional Administrator
Health Care Financing Administration
1600 Broadway, Suite 700
Denver, Colorado 80202

**REPORT OF EXAMINATION OF THE
ADMINISTRATIVE COSTS INCURRED
UNDER THE HEALTH INSURANCE FOR THE AGED AND DISABLED (MEDICARE)**

PART A and B

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY
FARGO, NORTH DAKOTA**

**FOR THE PERIOD
OCTOBER 1, 1997 THROUGH SEPTEMBER 30, 1999**

NOTICE

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of Carmichael, Brasher, Tuvell & Company, Certified Public Accountants, as concurred with by the DHHS-OIG, Office of Audit Services. Final determinations on these matters will be made by authorized DHHS operating division officials.

EXECUTIVE SUMMARY

Background

The Health Care Financing Administration (HCFA) administers the Medicare Program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries. HCFA has contracted with Blue Cross Blue Shield of North Dakota/Noridian Mutual Insurance Company (Noridian) to process Part A claims submitted by certain hospitals and other medical suppliers in North Dakota and Minnesota. During the period October 1, 1997 through September 30, 1999, Noridian claimed administrative costs of \$5,599,516 to process 1,270,776 Part A claims.

HCFA also contracted with Noridian to process Part B claims submitted by physicians and other medical suppliers in North Dakota, South Dakota, Wyoming, Colorado, Alaska, Arizona, Hawaii, Nevada, Oregon, Washington and Iowa. During the period October 1, 1997 through September 30, 1999, Noridian claimed administrative costs of \$89,627,343 to process 88,294,237 Part B claims.

Objectives

The objective of our audit was to determine whether (1) Noridian had established effective systems of internal control, accounting and reporting for administrative costs and (2) the Final Administrative Cost Proposals (FACPs) presented fairly, in all material respects, the costs of program administration for the Part A and B programs in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of Noridian's agreement with HCFA.

Results

We determined that Noridian had generally established adequate systems for internal control, accounting and reporting for administrative costs. Further, the administrative costs for the period October 1, 1997 through September 30, 1999, were generally in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of Noridian's agreement with HCFA. We did not identify any charges reported on the FACPs for which we recommend disallowance for the period October 1, 1997 through September 30, 1999. However, we did note two issues which Noridian should address.

First, Noridian classified costs as consulting costs when these costs should have been classified as subcontract costs.

Second, Noridian does not have policies and procedures in place to ensure that salaries and wages are consistently adjusted for paid time off accrued by employees. The paid time off allocable to Medicare was under reported by approximately \$146,000 for fiscal year 1998 and over reported by approximately \$65,000 for fiscal year 1999. We did not recommend adjustments for this finding. However, we did recommend that Noridian report paid time off based on actual accrued paid time off for all future periods. Noridian did not agree with this recommendation. Their response to our draft audit report is included in its entirety as an appendix to this report.

We evaluated Noridian's system of significant internal accounting and administrative controls, and compliance with laws and regulations that could materially affect the FACP's. Based on our evaluation, except as indicated above, Noridian's control procedures were adequate for the Department of Health and Human Service's purposes and that Noridian complied with the provisions of Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of Noridian's agreement with HCFA for the transactions tested. We have issued our report on compliance and the review of internal controls which appear on pages 4 and 6, respectively.

BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY
Fargo, North Dakota
October 1, 1997 through September 30, 1999

TABLE OF CONTENTS

PAGE

INTRODUCTION

Background	1
Objectives	1
Scope	2

INDEPENDENT AUDITORS' REPORTS

Independent Auditors' Report on Final Administrative Cost Proposals	3
Independent Auditors' Report on Compliance with Laws and Regulations	4
Independent Auditors' Report on Internal Control Structure	6

FINAL ADMINISTRATIVE COST PROPOSALS

October 1, 1997 through September 30, 1998 - Part A	9
October 1, 1997 through September 30, 1998 - Part B-821	10
October 1, 1997 through September 30, 1998 - Part B-830	11
October 1, 1998 through September 30, 1999 - Part A	12
October 1, 1998 through September 30, 1999 - Part B-821	13
October 1, 1998 through September 30, 1999 - Part B-830	14

FINDINGS AND RECOMMENDATIONS

Subcontract Costs	16
Salary Accrual for Paid Time Off	16

OTHER MATTERS

Complementary Insurance Financial Policies	18
Interim Expenditure Reports	18
Significant EDP Expenditures	18

APPENDIX

Auditee's Complete Response to the Draft Audit Report	20
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INTRODUCTION

Background

The Health Insurance for the Aged and Disabled (Medicare) program was established by Title XVIII of the Social Security Act. Hospital Insurance (Part A) provides protection against the cost of inpatient hospital care, post-hospital extended care, and post-hospital home health care. Supplemental Medical Insurance (Part B) is a voluntary program that covers physician services, hospital outpatient services, home health care and certain other health services. Part A and Part B provide insurance benefits to (1) eligible persons 65 and over, (2) disabled persons under 65 who have been entitled to Social Security benefits for at least 24 consecutive months and (3) individuals under age 65 with chronic kidney disease who are currently insured by or entitled to Social Security benefits.

The Health Care Financing Administration (HCFA) administers the Medicare Program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries. Contractors administering Part A of the program are known as Intermediaries and contractors administering Part B of the program are known as Carriers. The contracts between HCFA and the Intermediaries and Carriers define the functions which are to be performed and that costs allowable under the contract will be determined in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and amended by the contract.

Objectives

The objectives of our audit were to determine whether (1) Noridian had established an effective system of internal control, accounting and reporting for administrative costs incurred under the program and (2) the Final Administrative Cost Proposals (FACPs) presented fairly, in all material respects, the costs of program administration for Part A and B of the Medicare program in accordance with Part 31 of the Federal Acquisition Regulations (FAR) as interpreted and modified by Appendix B of Noridian's contract with HCFA.

Scope

Our audit was conducted in accordance with generally accepted government auditing standards. The audit objective was to determine whether administrative costs claimed by Noridian on its FACP's to administer Part A and B of the Medicare program for the period from October 1, 1997 through September 30, 1999 were reasonable, allocable and allowable. During the period October 1, 1997 through to September 30, 1999, Noridian claimed administrative costs of \$5,599,516 to process Part A claims and \$89,627,343 to process Part B claims.

We examined the administrative costs claimed by Noridian to the extent we considered necessary to determine if amounts claimed were in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and modified by Appendix B of Noridian's contract with HCFA. Our audit included audit procedures designed to achieve our objective and included a review of accounting records and supporting documentation. Our audit excluded a review of the pension costs claimed by Noridian on the FACP's. Pension costs were reviewed by the Office of Inspector General, Office of Audit Services and as such, were excluded from the scope of our audit.

We reviewed the action taken by Noridian on prior audit findings and the effectiveness of Noridian's corrective action in regard to the findings and recommendations. We reviewed and verified the accuracy of the cumulative "Interim Expenditure Reports" filed by Noridian during the audit period. The tests performed were designed to determine if Noridian prepared the reports based upon verifiable statistics which resulted in the accurate reporting of interim expenditures. We reviewed the methods and procedures utilized in the preparation of the September 30, 1999 expenditure report to determine if the methods and procedures were adequately documented and would result in accurate reporting.

We reviewed Noridian's compliance with complementary insurance policies and the amount of credit applied to Noridian's claimed administrative costs for the periods from October 1, 1997 to September 30, 1999. Our procedures were designed to determine if Noridian was complying with complementary insurance policies and that credits due Medicare were properly included in the FACP's.

We reviewed the extent to which Noridian had incurred significant costs for planning, developing or modifying the Medicare claims processing system.

Audit fieldwork was performed at Noridian's office in Fargo, North Dakota from October 1999 through January 2000.

**INDEPENDENT AUDITORS' REPORT ON
FINAL ADMINISTRATIVE COST PROPOSALS**

We have audited the administrative costs incurred and reported on the Final Administrative Cost Proposals of Blue Cross Blue Shield of North Dakota/Noridian Mutual Insurance Company for the period from October 1, 1997 through September 30, 1999. These Final Administrative Cost Proposals are the responsibility of Noridian's management. Our responsibility is to express an opinion on the Final Administrative Cost Proposals based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, 1994 Revision, and the Audit Guide for the Review of Administrative Costs Incurred by Medicare Intermediaries and Carriers Under Title XVIII of the Social Security Act, dated February 25, 1991, issued by the Office of Inspector General - Department of Health and Human Services. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Final Administrative Cost Proposals are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the Final Administrative Cost Proposals. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Final Administrative Cost Proposals. We believe that our audit provides a reasonable basis for our opinion.

Noridian's policy is to prepare and report its costs of administering Part A and B of the Medicare program on the Final Administrative Cost Proposals in conformity with Part 31 of the Federal Acquisition Regulations as interpreted and modified by Appendix B of Noridian's contract (Medicare Agreement) with the Health Care Financing Administration (HCFA) and HCFA's reporting procedures. Accordingly, the accompanying Final Administrative Cost Proposals are not intended to be a complete presentation of Noridian's assets, liabilities, revenue and expenses.

We did not audit and do not express an opinion on the pension costs contained in the Final Administrative Cost Proposals for the period October 1, 1997 through September 30, 1999.

In our opinion, except for the above pension costs and the adjustments as disclosed in the findings and recommendations section of this report, the accompanying Final Administrative Cost Proposals, as adjusted, present fairly, in all material respects, the cost of administering Part A and Part B of the Medicare Program in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and modified by Appendix B of Noridian's Medicare Agreement and HCFA's reporting procedures.

This report is intended solely for the use described above and should not be used for any other purpose.

Carmichael, Brasher, Tuvell & Company

Atlanta, Georgia
January 27, 2000

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH LAWS AND REGULATIONS

We have performed an audit of the Final Administrative Cost Proposals (FACPs) of Blue Cross Blue Shield of North Dakota/Noridian Mutual Insurance Company (Noridian) for the period October 1, 1997 through September 30, 1999 and have issued our report thereon, dated January 27, 2000.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, 1994 Revision, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FACPs are free of material misstatement and whether Noridian complied in all material respects with the provisions of Appendix B of the Medicare Agreement.

Compliance with laws, regulations and agreement requirements applicable to Noridian is the responsibility of Noridian management. As part of obtaining reasonable assurance about whether the FACPs were free of material misstatement, and whether Noridian complied in all material respects with the provisions of Appendix B of the Medicare Agreement, we performed tests of compliance with certain provisions of laws, regulations and the agreement. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes, regulations or contracts, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations are material to the Health Care Financing Administration (HCFA) agreement and the FACPs.

The results of our tests of compliance disclosed potential immaterial instances of noncompliance (see Schedule of Adjustments) with HCFA agreement provisions as disclosed in the Findings and Recommendations section of this report.

We considered the immaterial instances of noncompliance in forming our opinion on the FACPs and on Noridian's compliance with HCFA agreement provisions, and this report does not affect our report on the FACPs dated January 27, 2000 and the opinion rendered therein.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Noridian complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that Noridian had not complied, in all material respects, with those provisions.

Nothing came to our attention in connection with our examination that caused us to believe that Noridian was not in compliance with any of the terms and provisions of applicable agreements, laws, and regulations for those transactions not tested.

This report is intended solely for the use of management of Noridian and the Department of Health and Human Services (DHHS). This restriction is not intended to limit the distribution of this report which, upon acceptance by the DHHS is a matter of public record.

Carmichael, Brasher, Jewell & Company

Atlanta, Georgia
January 27, 2000

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL STRUCTURE**

We have audited the Final Administrative Cost Proposals (FACPs) of Blue Cross Blue Shield of North Dakota/Noridian Mutual Insurance Company (Noridian) for the period October 1, 1997 to September 30, 1999 and have issued our report thereon, dated January 27, 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards for audits contained in the Government Auditing Standards, 1994 Revision, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FACPs are free of material misstatement and whether Noridian complied in all material respects with the provisions of Appendix B of the Medicare Agreement.

In planning and performing our audit of Noridian, we considered its internal control structure and administrative controls as they relate to the Medicare Agreement in order to determine our auditing procedures for the purpose of expressing our opinion on the FACPs and whether Noridian complied with Health Care Financing Administration (HCFA) agreement provisions and not to provide assurance on the internal control structure. Our study and evaluation was more limited than would be necessary to express an opinion on Noridian's system of internal control structure taken as a whole.

The management of Noridian is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reports in accordance with HCFA agreement provisions. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified the significant internal control structure policies and procedures and administrative controls in the following categories:

Accounting Controls

- Cash receipts and disbursements
- Payroll and fringe benefits
- Indirect costs

- Depreciation and use charges
- Claims processing charges

Administrative Controls

- Interim Expenditure Reports (IER)
- Final Administrative Cost Proposal (FACP) Reports
- Subcontract and EDP Contracting
- Cost of Investment
- Complementary Insurance Credit
- Budget Comparisons

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation. We also assessed control risk for the control categories listed above.

Our consideration of the internal control structure and administrative controls would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the HCFA agreement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters involving the internal control structure and its operations that we considered to be immaterial weaknesses as defined above (refer to the Findings and Recommendations section of this report).

This report is intended solely for the use of management and the Department of Health and Human Services (DHHS). This restriction is not intended to limit the distribution of this report which, upon acceptance by the DHHS, Office of Inspector General, is a matter of public record.

Carmichael, Brasher, Jewell & Company

Atlanta, Georgia
January 27, 2000

FINAL ADMINISTRATIVE COST PROPOSALS (FACP'S)

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY**

Final Administrative Cost Proposal
For the Period October 1, 1997 through September 30, 1998
Part A

<u>Operation</u>	<u>FY98 Administrative Costs</u>
Bills/Claims Payment	\$ 547,967
Appeals/Reviews	30,430
Inquiries	47,146
Provider Education & Training	25,674
Reimbursement	135,513
Productivity Investments	65,691
Medical Review	122,646
Benefits Integrity	23,105
Audit	408,198
Medicare Secondary Payer	170,022
Credits	<u>(117,781)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>1,458,611</u>
Recommended Adjustments:	
None	<u>0</u>
Total Adjustments	<u>0</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>1,458,611</u>

See Independent Auditors' Report.
Explanation of each adjustment is provided in the Findings and Recommendations
section of this report.

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY**

Final Administrative Cost Proposal
For the Period October 1, 1997 through September 30, 1998
Part B-821

<u>Operation</u>	<u>FY98 Administrative Costs</u>
Bills/Claims Payment	\$ 8,212,391
Appeals/Reviews	723,961
Inquiries	2,039,173
Provider Education & Training	354,049
Participating Physician	458,126
Productivity Investments	2,702,558
Medical Review	859,712
Benefits Integrity	522,900
Medicare Secondary Payer	571,388
Credits	<u>(2,315,535)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>14,128,723</u>
Recommended Adjustments:	
None	<u>0</u>
Total Adjustments	<u>0</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>14,128,723</u>

See Independent Auditors' Report.
Explanation of each adjustment is provided in the Findings and Recommendations
section of this report.

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY**

Final Administrative Cost Proposal
For the Period October 1, 1997 through September 30, 1998
Part B-830

<u>Operation</u>	<u>FY98 Administrative Costs</u>
Bills/Claims Payment	\$ 23,745,258
Appeals/Review	1,852,238
Inquiries	4,404,697
Provider Education & Training	1,093,588
Participating Physician	513,302
Productivity Investments	705,800
Credits	<u>(5,396,026)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>26,918,857</u>
Recommended Adjustments:	
None	<u>0</u>
Total Adjustments	<u>0</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>26,918,857</u>

See Independent Auditors' Report.
Explanation of each adjustment is provided in the Findings and Recommendations
section of this report.

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY**

Final Administrative Cost Proposal
For the Period October 1, 1998 through September 30, 1999
Part A

<u>Operation</u>	<u>FY99 Administrative Costs</u>
Bills/Claims Payment	\$ 717,977
Appeals/Reviews	43,283
Inquiries	247,603
Provider Education & Training	57,920
Reimbursement	317,713
Productivity Investments	1,456,300
Medical Review	278,569
Benefits Integrity	40,275
Audit	918,042
Medicare Secondary Payer	282,353
Credits	<u>(219,130)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>4,140,905</u>
Recommended Adjustments:	
None	<u>0</u>
Total Adjustments	<u>0</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>4,140,905</u>

See Independent Auditors' Report.
Explanation of each adjustment is provided in the Findings and Recommendations
section of this report.

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY**

Final Administrative Cost Proposal
For the Period October 1, 1998 through September 30, 1999
Part B-821

<u>Operation</u>	<u>FY99 Administrative Costs</u>
Bills/Claims Payment	\$13,013,171
Appeals/Reviews	1,481,309
Inquiries	3,900,417
Provider Education & Training	710,165
MIP Prod Investments	1,364
Participating Physician	229,179
Productivity Investments	636,400
Medical Review	1,761,537
Benefits Integrity	608,267
Medicare Secondary Payer	1,230,985
PM Special Projects	713
Credits	<u>(4,091,931)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>19,481,576</u>
Recommended Adjustments:	
None	<u>0</u>
Total Adjustment	<u>0</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>19,481,576</u>

See Independent Auditors' Report.
Explanation of each adjustment is provided in the Findings and Recommendations
section of this report.

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY**

Final Administrative Cost Proposal
For the Period October 1, 1998 through September 30, 1999
Part B-830

<u>Operation</u>	<u>FY99 Administrative Costs</u>
Bills/Claims Payment	\$ 23,778,356
Appeals/Reviews	2,239,234
Inquiries	5,428,083
Provider Education & Training	904,846
Participating Physician	362,305
Productivity Investments	2,027,800
Medical Review	0
Benefits Integrity	0
Medicare Secondary Payer	0
PM Special Projects	1,284
Credits	<u>(5,643,721)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>29,098,187</u>
Recommended Adjustments:	
None	<u>0</u>
Total Adjustments	<u>0</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>29,098,187</u>

See Independent Auditors' Report.
Explanation of each adjustment is provided in the Findings and Recommendations
section of this report.

FINDINGS AND RECOMMENDATIONS

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY**

Findings and Recommendations

For the Period October 1, 1997 through September 30, 1999

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Subcontract Costs

Our audit also disclosed instances of costs classified as consulting when these costs should have been classified as subcontract costs.

Recommendation

Noridian should maintain separate accounts in its accounting system to properly track and report consulting and subcontract costs.

Noridian's Response

Noridian agreed with our recommendation.

Salary Accrual for Paid Time Off

Noridian does not have policies and procedures in place to ensure that salaries and wages are consistently adjusted for paid time off accrued by employees. Noridian accrues paid time off based on estimates. Noridian periodically, but not regularly, computes the actual outstanding liability; however, the estimated liability is only adjusted to actual at management's discretion. The paid time off allocable to Medicare was under reported by approximately \$146,000 for fiscal year 1998 and over reported by approximately \$65,000 for fiscal year 1999.

Recommendation

Noridian should report paid time off based on actual accrued paid time off and not estimated accrued time off.

Noridian's Response

Noridian disagreed with our finding, stating that they do have policies and procedures in place to ensure that paid time off is reasonable and accurate through the use of an accrual based on the best estimate of costs to be incurred. While Noridian does not compute the actual paid time off monthly it is computed regularly with adjustments being made if necessary.

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
/NORIDIAN MUTUAL INSURANCE COMPANY**

Findings and Recommendations

For the Period October 1, 1997 through September 30, 1999

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Auditor's Response

We continue to recommend that Noridian report paid time off monthly based on actual accrued paid time off and not based on estimated accrued time off. We also recommend that an adjustment to actual be made monthly. Noridian does not, at pre-set intervals, make adjustments to its paid time off accrual; instead, Noridian identifies the difference in estimated to actual "regularly" and makes adjustments sporadically. The lack of a consistent monthly adjustment to correct paid time off to actual could result in administrative costs allocated to Medicare being over or understated for a particular fiscal year.

**BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA, INC.
/NORIDIAN MUTUAL INSURANCE COMPANY
OTHER MATTERS**

For the Period October 1, 1997 through September 30, 1999

Complementary Insurance Financial Policies

Our review of Noridian's complementary insurance financial policies, as discussed in the "Scope of Audit" section of this report, disclosed that Noridian received approval for its complementary insurance claims processing operations, as required by program regulations. The complementary claims operation was approved by HCFA in June, 1998. It appears that Noridian is calculating and crediting Medicare in accordance with the approved cost rate.

Plan's Interim Expenditure Reports

We reviewed Noridian's method for preparing its Interim Expenditure Reports (IERs). Noridian's September 1999 "Cumulative Interim Expenditure Report" agreed to the internal accounting documents maintained to support the IER. No matters came to our attention during our review which would indicate that Noridian's methods and procedures for the preparation of the Interim Expenditure Reports were not adequate.

Significant EDP Expenditures

No significant EDP costs were incurred during our audit period for planning, development or modification of the Medicare claims processing system for Part A or B of the Medicare program other than funds expended to correct problems associated with Y2K.

**AUDITEE'S COMPLETE RESPONSE
TO THE DRAFT AUDIT REPORT**



September 1, 2000

Diana Crawford, CPA
Carmichael Brasher Tuve & Co.
Dunwoody Exchange
1647 Mount Vernon Road
Atlanta, Georgia 30338

Dear Ms. Crawford:

This is our formal response to the draft audit report on the FACPs for FY1998 and FY1999.

Return on Investment

Noridian has provided the detail supporting the return on investment costs for FY1998 and FY1999.

Subcontract Costs

Noridian has always been very open with HCFA Denver RO and CO and involves them in discussions and decisions relating to subcontracts. In all cases HCFA has been involved with the implementation of a transition to a new shared processor or shared system and was aware of the subcontracts entered into. Listed below are each of the subcontracts questioned in the audit report with a notation that prior approval was obtained or notification to the RO had occurred.

1. MCS (EDS) - ND & IA
See Attachment 1
Prior Approval dated August 9th, 1994 from Carol Walton
2. GTE Data Services
See Attachment 2
Prior Approval dated April 15th, 1997 from Alex Trujillo
3. AdminaStar Federal
See Attachment 3
Prior Approval dated August 30th, 1996 from Alex Trujillo
4. First Coast
Blue Cross Blue Shield Association (BCBSA) holds the prime contract on the Minnesota Part A business. When Trigon elected to give up the Part A workload including the data centers for other intermediaries the BCBSA put the workload out on bids. Through this bidding process First Coast was selected as the data center to process the Minnesota workload.
See Attachment 4
BCBSA RFP, HCFA letters and emails

5. Moore Business Forms
See Attachment 5
Prior Approval dated August 14, 1997 from Alex Trujillo
6. BCBS of MN
In the Minnesota Part A RFP transition page 11, the assumption was that "the incumbent (BCBS MN) would continue to collect EMC for six months to one year". In addition, on page 38 of the RFP the following was stated. "The Offeror will pursue a written agreement with the incumbent to continue to collect and forward EMC claims to FISS for no longer than one year. The Offeror will work with providers to migrate them to a direct transmission capability with the Offeror, while ensuring stability with existing EMC percentages". In the Subcontracting section of the RFP Noridian again discloses intentions to subcontract with BCBS Minnesota.
See Attachment 6
7. TechLink, Inc.
8. AN Enterprises, Inc.
9. Laducer & Associates
These three tele-work centers perform verification of scanned claims. An RFP dated April 4th, 1997 was sent out to prospective vendors. Noridian staff traveled to and evaluated six different vendors and chose these three based on specific criteria. Roy Foltz, Denver RO assisted in the evaluation process and contracting. We believe that Roy had given his approval at least verbally. Lynn Ward, the manager heading up the tele-work center project left Noridian and Roy has retired from HCFA. Lynn has recently returned to Noridian and we are still trying to locate all of the documentation. I have attached the RFP and an example of the evaluation sheet. These two documents should illustrate that the work was competitively bid. Roy's participation in the evaluation and contracting should demonstrate HCFA's awareness and approval of the subcontracts.
See Attachment 7
10. TOLIC
HCFA wanted to pilot separate contracts for the PM and MIP workload. HCFA awarded the Aetna PM workload to Noridian and the Aetna MIP contract to Transamerica Occidental Life Insurance Company (TOLIC). In order to process this workload Noridian performed some MIP functions and provided space and phone services for the TOLIC staff required to be on site at Noridian. On the other hand there were some tasks that TOLIC performed that related to the PM side. TOLIC charged Noridian for a percentage of CMDs and other services related to the PM side. Both Noridian and TOLIC charged "Actual" cost. Again I want to emphasize that this was a HCFA pilot project requiring that we would work cooperatively to administer the six state workload and understood that some staff/services would be shared and that each contractor would have to charge back actual costs for those staff/services.

We have discussed this finding with the Denver RO and they would be willing to look for additional documentation such as emails, memos, transition task lists etc. to support the fact that the subcontracts

were competitive, the costs were reasonable and in the best interest of the Medicare trust fund.

The second part of this finding relates to classification of costs for subcontracts. Subcontract costs were combined with consulting costs in the Noridian general ledger making them difficult to pull out and report on the IER and FACP. Noridian has added a new natural expense for subcontract costs in the general ledger to ensure that subcontract costs are properly classified.

Salary Accrual for Paid Time Off

Noridian disagrees with this finding. We do have policies and procedures in place to ensure that PTO accrual is reasonable and accurate. An accrual is the best estimate of the costs to be incurred. Noridian makes a monthly journal entry to accrue the estimated PTO costs. This estimate is based off of the best information we have at the time the accrual is set up. While Noridian doesn't compute the actual PTO monthly it is computed regularly with adjustments being made if necessary.

My expectations are that we have cleared up all of the financial findings. If you have any questions or concerns that we have not provided sufficient information to clear up these findings please give me a call at 701-282-1106 prior to the final report being issued.

Sincerely,



David Breuer
Manager, Finance

Enclosure

CC: Jay Martinson
Bernie Fellner, Denver RO